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CFEP DRAFTING GROUP
ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 20
Draft of June 17, 1955

Political Impact of Free World Controls on
Trade with the Sino-Soviet Bloc

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Executive Secretary

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Contributed by Defense

ECONOMIC DEFENSE POLICY REVIEW

Political Impact of Free World Controls on
Trade with the Sino-Soviet Bloc

A. CONCLUSIONS

1. Examination of the indications from available intelligence provides strong support for the view that Free World controls on trade with the Sino-Soviet Bloc -

- (a) have a broad political impact upon the foreign relations of the Bloc;
- (b) represent a lesser threat to the internal political stability of the Bloc regimes, which however could be considerably increased by total embargo;
- (c) at their present level or at a higher level constitute major Free World bargaining points in negotiations with the Bloc;^{1/} and
- (d) at a lower level, particularly CHINCOM controls would be a sign of weakness and might hamper political discussions and negotiations.^{2/}

B. UNDERLYING CONSIDERATIONS

2. In an examination at this time of the effects of Western trade controls on countries of the Sino-Soviet Bloc, it is assumed that despite apparent concessions recently made by the Soviet rulers, (a) there is no convincing evidence

^{1/} Trade controls as a diplomatic device contain sanctions which can be applied entirely at the discretion of Free World governments both as to timing and extent.

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that the ideological force of Communism is abating, (b) the fundamental hostility of the Communist leaders toward the Free World remains unchanged, and (c) the basic objective of the Communist leaders is a continued expansion of their own sphere of power at the expense of the Free World. *Good*

3. The political structure of the Sino-Soviet Bloc is vulnerable to the impact of Free World economic measures because Marxist political thinking is conditioned by economic considerations. *OK*

4. The total political impact of Free World denial of goods and services to the Sino-Soviet Bloc involves effects of economic and military measures which are not here assessed. Although the political significance of this impact may be greater or less at any given time, the Free World controls constitute an effective overall bargaining instrument in negotiations with the Sino-Soviet Bloc and produce disruptive intra-Bloc political effects of an ideological and psychological character from which tactical advantages can be derived. For these reasons the correct assessment of the political impact of trade controls is a vital factor in the formulation or revision of an economic defense program aimed at the preservation of Free World security. *OK*

5. It is a premise of the Free World controls that they impose a greater strategic cost on the Sino-Soviet Bloc than on the Free World.^{3/} By parity of reasoning, any increase of the level of controls would increase *overall?* the relative strategic cost to the Sino-Soviet Bloc, and the maximum *Yes*

25X1



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Not talked about this

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undoubtedly but paper #1 says total US OFFICIALS ONLY
 embargo ~~for~~ and maximize overall cost to bloc economy. - 3 - Not necessarily in
 possible strategic cost would be imposed by a total embargo. Disagreement based on
 would be need to tie those papers together on this point of possible

6. Although the system of Free World controls has been based primarily on the idea of selectivity, the trend in the recent past in the main has been toward selecting items for decontrol rather than toward selecting items which would have a major strategic impact if denied to the Bloc. For example, in the context of current Soviet Bloc economic conditions, it might be that agricultural commodities should be near the top of the list from the point of view of strategic impact. Another important area of direct vulnerability is the provision of shipping and shipping services to the Bloc (shipbuilding and repairs for Bloc accounts in Western yards), chartering of ships in trade with the Bloc, etc.^{4/}

C. POLITICAL STABILITY OF THE SINO-SOVIET BLOC

7. The system of Free World controls on trade with the Sino-Soviet Bloc represents a continuing challenge to the political stability of the Bloc regimes. The controls -

- (a) compel the Bloc to try to compensate by autarchic measures in those particular areas where Free World denial of goods and services is effective; ^{5/}
- (b) disrupt Soviet state planning; ^{6/}
- (c) contribute to the failure of the Bloc to benefit from Free World advances in broad fields of science and technology; ^{7/}
- (d) restrict the flexibility and possibly influence the basic

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*Footnotes may
throw light on
these statements*

pattern of the development of the Bloc's mobilization base 8/ and even influence military decisions as in the case of Communist China.9/

8. As regards relationships between the various member states of the Bloc, Free World controls tend to -

(a) maximize strains, stresses and consequent chances for disunity by compelling the institution of priorities for the allocation of scarce goods and services on the basis of Bloc-wide strategic requirements decided by Moscow; 10/ *yes*

(b) cause the European satellites to be turned by Moscow from traditional Free World markets in order to satisfy overriding internal requirements of the Bloc as a whole or of specific Bloc partners; 11/ *yes*

(c) require policing efforts among Bloc partners to insure compliance with intra-Bloc priority allocation systems made necessary by Free World controls; 12/

(d) encourage satellite countries to reestablish normal relations with the Free World.13/ *? Yugoslavia*

D. INTERNATIONAL RELATIONS BETWEEN SINO-SOVIET BLOC AND FREE WORLD COUNTRIES

9. In international relations between Sino-Soviet Bloc countries and the Free World, strategic trade controls:

(a) limit the Sino-Soviet Bloc's freedom of action under peacetime conditions and in preparation for war; 14/ *?*

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(b) constitute a major bargaining point for Free World negotiators, particularly for negotiations involving economic requirements or the political prestige of Communist China; 15/ Yes

(c) call attention to the advantages of a free exchange of goods and persons enjoyed by non-Communist countries (see 8.(d) above); 16/ Yes

(d) emphasize the decreasing dependence of Free World economies upon trade with the Bloc.17/

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